

HB 327 -- Nonexchange Financial Guarantees in Government

Sponsor: Barnes

This bill changes the laws regarding nonexchange financial guarantees of state government and political subdivisions and the obligation of a separate legal entity when the guarantee indemnifies a third-party holder of the obligation. The provisions of the bill apply to financial statements of all state government entities and to all political subdivisions that participate in nonexchange financial guarantees but do not apply to guarantees related to special assessment debt within the scope of Governmental Accounting Standards Board Statement No. 6, Accounting and Financial Reporting for Special Assessments as of January 1, 2013.

A government that extends a nonexchange financial guarantee must make public, as defined in the bill, the qualitative factors it used in determining how likely it would be that the government will have to make a payment as a result of the guarantee including entering into a bankruptcy or financial reorganization, breach of a debt contract, and indicators of significant financial difficulty. Similar guarantees extended to a group must also be treated the same way, and historical data on default frequency must also be considered if available.

If the qualitative factors or historical data indicate the likelihood of a payment, the government must recognize certain liabilities and calculate their effect according to specified measurements and make the information public. If a government is required to repay a guarantor, the government must reclassify that portion of its liability for the guaranteed obligation as a liability to the guarantor and make the reclassification information public. It must continue to report the obligation as a liability until all or a portion of the liability is legally released and recognize revenue to the extent of the reduction of guaranteed liabilities.

A government that extends nonexchange financial guarantees is required to disclose certain information by the type of guarantee and specified information about outstanding obligations that have been guaranteed by another entity. The requirements for these disclosures may be applied prospectively.

The provisions of the bill are effective for accounting periods beginning after August 28, 2013. The bill specifies the procedure for filing the first report for a transitional period.